

Testimony**Before the House Committee on Oversight
and Government Reform**

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**GAO'S 2011 HIGH-RISK
SERIES****An Update**

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Why GAO Did This Study

The federal government is the world's largest and most complex entity, with about \$3.5 trillion in outlays in fiscal year 2010 funding a broad array of programs and operations. GAO maintains a program to focus attention on government operations that it identifies as high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges.

This testimony summarizes GAO's 2011 High-Risk Update, which describes the status of high-risk areas listed in 2009 and identifies any new high-risk area needing attention by Congress and the executive branch. Solutions to high-risk problems offer the potential to save billions of dollars, improve service to the public, and strengthen the performance and accountability of the U.S. government.

What GAO Recommends

The High-Risk update contains GAO's views on progress made and what remains to be done to bring about lasting solutions for each high-risk area. Perseverance by the executive branch in implementing GAO's recommended solutions and continued oversight and action by Congress are essential to achieving progress. GAO is dedicated to continue working with Congress and the executive branch to help ensure additional progress is made.

View [GAO-11-394T](#) or key components. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

February 17, 2011

GAO'S 2011 HIGH-RISK SERIES

An Update

What GAO Found

This year, GAO removed the high-risk designation from two areas—the DOD Personnel Security Clearance Program and the 2010 Census—and designated one new high-risk area—Interior's Management of Federal Oil and Gas Resources. These changes bring GAO's 2011 High-Risk List to a total of 30 areas. While many positive developments have occurred, additional progress is both possible and needed in all 30 high-risk areas to save billions of dollars and further improve the performance of federal programs and operations. Congressional oversight and sustained attention by top administration officials are essential to ensuring further progress. The high-risk effort is a top priority for GAO. Working with Congress, agency leaders, and the Office of Management and Budget, GAO will continue to provide insights and recommendations on needed actions to solve high-risk areas.

Regarding the new high-risk area, Interior does not have reasonable assurance that it is collecting its share of billions of dollars of revenue from oil and gas produced on federal lands, and it continues to experience problems in hiring, training, and retaining sufficient staff to provide oversight and management of oil and gas operations on federal lands and waters. Further, Interior recently began restructuring its oil and gas program, which is inherently challenging, and there are many open questions about whether Interior has the capacity to undertake this reorganization while carrying out its range of responsibilities, especially in a constrained resource environment.

While there has been some progress on nearly all of the issues that remain on the High-Risk List, the nation cannot afford to allow problems to persist. This statement discusses opportunities for savings that can accrue if progress is made to address high-risk problems. For example:

- Billions of dollars are estimated in Medicare and Medicaid improper payments. The effective implementation of recent laws, including the Improper Payments Elimination and Recovery Act of 2010, and administration guidance will be key factors in determining the overall effectiveness of reducing improper payments in the Medicare and Medicaid programs.
- Federal agencies' real property holdings include thousands of excess and/or underutilized buildings and cost over \$1.6 billion annually to operate. If this issue is not addressed, the costs to maintain these properties will continue to rise.
- Over the next 5 years, the Department of Defense (DOD) expects to invest over \$300 billion (in fiscal year 2011 dollars) on the development and procurement of major defense acquisition programs. DOD must get better value for its weapon system spending and find ways to deliver needed capability to the warfighter for less than it has spent in the past.

GAO's 2011 High-Risk List

Strengthening the Foundation for Efficiency and Effectiveness

- Management of Federal Oil and Gas Resources **(New)**
- Modernizing the Outdated U.S. Financial Regulatory System
- Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability
- Funding the Nation's Surface Transportation System
- Strategic Human Capital Management
- Managing Federal Real Property

Transforming DOD Program Management

- DOD Approach to Business Transformation
- DOD Business Systems Modernization
- DOD Support Infrastructure Management
- DOD Financial Management
- DOD Supply Chain Management
- DOD Weapon Systems Acquisition

Ensuring Public Safety and Security

- Implementing and Transforming the Department of Homeland Security
- Establishing Effective Mechanisms for Sharing and Managing Terrorism-Related Information to Protect the Homeland
- Protecting the Federal Government's Information Systems and the Nation's Cyber Critical Infrastructures
- Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests
- Revamping Federal Oversight of Food Safety
- Protecting Public Health through Enhanced Oversight of Medical Products
- Transforming EPA's Process for Assessing and Controlling Toxic Chemicals

Managing Federal Contracting More Effectively

- DOD Contract Management
- DOE's Contract Management for the National Nuclear Security Administration and Office of Environmental Management
- NASA Acquisition Management
- Management of Interagency Contracting

Assessing the Efficiency and Effectiveness of Tax Law Administration

- Enforcement of Tax Laws
- IRS Business Systems Modernization

Modernizing and Safeguarding Insurance and Benefit Programs

- Improving and Modernizing Federal Disability Programs
- Pension Benefit Guaranty Corporation Insurance Programs
- Medicare Program
- Medicaid Program
- National Flood Insurance Program

Mr. Chairman, Ranking Member Cummings, and Members of the Committee:

Thank you for the opportunity to discuss GAO's 2011 High-Risk update.¹ This year, GAO removed the high-risk designation from two areas—the DOD Personnel Security Clearance Program and the 2010 Census—and designated one new high-risk area—Interior's Management of Federal Oil and Gas Resources. These changes bring GAO's 2011 High-Risk List to a total of 30 areas, each of which is discussed in detail in our report and updated on our Web site.² Those discussions include the nature of the risk, progress made since our last High-Risk update in 2009, and the specific actions needed for additional progress.

While many positive developments have occurred, additional progress is both possible and needed in all 30 high-risk areas to save billions of dollars and further improve the performance of federal programs and operations. In that regard, I want to commend you, Mr. Chairman and the committee for holding this hearing to draw needed attention to these important problems. Congressional oversight and sustained attention by top administration officials are essential to ensuring further progress. Also, please be assured the high-risk effort is a top priority for GAO and we will continue to provide insights and recommendations on needed actions to address high-risk areas, working with Congress, agency leaders, and the Office of Management and Budget (OMB).

High-Risk Designation Removed

When legislative, administration, and agency actions, including those in response to our recommendations, result in significant progress toward resolving a high-risk problem, we remove the high-risk designation. The five criteria for determining if the high-risk designation can be removed are (1) a demonstrated strong commitment to, and top leadership support for, addressing problems; (2) the capacity to address problems; (3) a corrective action plan; (4) a program to monitor corrective measures; and (5) demonstrated progress in implementing corrective measures.

For our 2011 high-risk update, we determined that two areas warranted removal from the High-Risk List: the Department of Defense (DOD) Personnel Security Clearance Program and the 2010 Census. As we have

¹GAO, *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: February 2011).

²GAO's High-Risk and Other Major Government Challenges Web site, <http://www.gao.gov/highrisk/>.

with areas previously removed from the High-Risk List, we will continue to monitor these areas, as appropriate, to ensure that the improvements we have noted are sustained. If significant problems again arise, we will consider reapplying the high-risk designation.

Department of Defense Personnel Security Clearance Program

We are removing DOD's personnel security clearance program from the High-Risk List because of the agency's progress in timeliness and the development of tools and metrics to assess quality, as well as its commitment to sustaining progress. Importantly, continued congressional oversight and the committed leadership of the Suitability and Security Clearance Performance Accountability Council (Council)—which is responsible for overseeing security clearance reform efforts—have greatly contributed to the progress of DOD and governmentwide security clearance reform.³

DOD officials, in coordination with the Council, have demonstrated a strong commitment to, and a capacity for, addressing security clearance reform efforts in line with the Intelligence Reform and Terrorism Prevention Act (IRTPA) of 2004. Specifically, DOD (1) significantly improved the timeliness of security clearances and met the IRTPA objective for processing 90 percent of initial clearances on average within 60 days for fiscal year 2010, (2) worked with members of the Council to develop a strategic framework for clearance reform, (3) designed quality tools to evaluate completeness of clearance documentation, (4) issued guidance on adjudication standards, and (5) continues to be a prominent player in the overall security clearance reform effort, which includes entities within the Office of Management and Budget, the Office of Personnel Management, and the Office of the Director of National Intelligence. These efforts have yielded positive results.

Continued congressional oversight and the committed leadership of DOD have greatly contributed to the progress in addressing the problems with the personnel security clearance process. We will continue to monitor

³The Council is comprised of the Director of National Intelligence as the Security Executive Agent, the Director of OPM as the Suitability Executive Agent, and the Deputy Director for Management, OMB as the chair with the authority to designate officials from additional agencies to serve as members. The current council includes representatives from the Department of Defense, Department of State, Federal Bureau of Investigation, Department of Homeland Security, Department of Energy, Department of Health and Human Services, Department of Veterans Affairs, and Department of the Treasury.

DOD's efforts because security clearance reform is ongoing, and DOD needs to place a high priority on ensuring that timeliness improvements continue and quality is built into every step of the process using quantifiable and independently verifiable metrics.

The 2010 Census

We removed the 2010 Census from our High-Risk List because the U.S. Census Bureau (Bureau) generally completed its peak census data collection activities consistent with its operational plans; released the state population counts used to apportion Congress on December 21, 2010, several days ahead of the legally mandated end-of-year deadline; and remaining activities appear to be on track, including, as required by law, delivering the data that states use for congressional redistricting by April 1, 2011.

A successful census is critical because the census is a constitutionally mandated program used to apportion and redistrict the U.S. House of Representatives, help allocate about \$400 billion yearly in federal financial assistance, and inform the planning and investment decisions of numerous public- and private-sector entities.

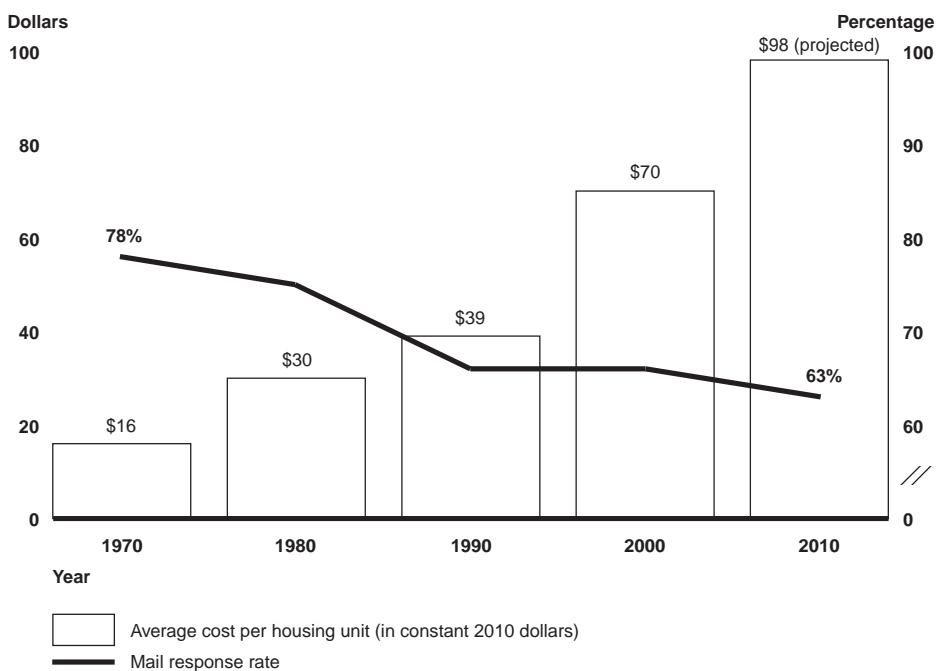
In March 2008, we designated the 2010 Census a high-risk area because of

- long-standing weaknesses in the Bureau's information technology (IT) acquisition and contract management function,
- problems with the performance of handheld computers used to collect data, and
- uncertainty over the ultimate cost of the census, which escalated from an initial estimate of \$11.3 billion in 2001 to around \$13 billion.

To address these issues and help secure a successful census, the Bureau demonstrated strong commitment and top leadership support to mitigate the risks, including bringing in experienced personnel to key positions and taking steps to implement our recommendations to strengthen its IT and other management and planning functions. At the same time, similar to the case with the DOD Personnel Security Clearance Program, active congressional oversight—including a dozen congressional hearings held after we added the census to our High-Risk List—helped ensure the Bureau effectively designed and managed operations and kept the enumeration on schedule.

Although every census has its decade-specific difficulties, societal trends—including growing concerns over personal privacy, more non-English speakers, and more people residing in makeshift and other nontraditional living arrangements—make each decennial inherently challenging. As shown in figure 1, the cost of enumerating each housing unit has escalated from an average of around \$16 in 1970 to around \$98 in 2010, an increase of over 500 percent (in constant 2010 dollars). At the same time, the mail response rate—a key indicator of a successful census—has declined from 78 percent in 1970 to 63 percent in 2010. Put another way, the Bureau has to invest substantially more resources each decade in an effort to keep pace with key results from prior enumerations.

Figure 1: The Average Cost of Counting Each Housing Unit (in Constant 2010 Dollars) Has Escalated Each Decade While Mail Response Rates Have Declined



Source: GAO analysis of Census Bureau data.

Note: In the 2010 Census, the Bureau used only a short-form questionnaire. For our analysis, we use the 1990 and 2000 Census short-form mail response rate when comparing 1990, 2000, and 2010 mail-back response rates. Because Census short-form mail response rates are unavailable for 1980 and 1970, we use the overall response rate.

The bottom line is that the fundamental design of the enumeration—in many ways unchanged since 1970—is no longer capable of delivering a cost-effective headcount given ongoing and newly emerging societal trends. Thus, while the 2020 Census may seem well over the horizon,

research and planning activities need to start early in the decade to help ensure the 2020 Census is as cost-effective as possible. Indeed, the Bureau's past experience has shown that early investments in planning can help reduce the costs and risks of downstream operations.

Going forward, potential focus areas for Census reform include new data collection methods such as using administrative records from other government agencies, including driver's licenses; better leveraging innovations in technology and social media to more fully engage census stakeholders and the general public on census issues; reaching agreement on a set of criteria that could be used to weigh the trade-offs associated with the need for high levels of accuracy on the one hand, and the increasing cost of achieving that accuracy on the other hand; and ensuring that the Bureau's approach to human capital management, collaboration, capital decision-making, knowledge sharing, and other internal functions are aligned toward delivering a more cost-effective headcount.

Ongoing congressional oversight over the course of the decade will also be critical for ensuring the Bureau's reform efforts stay on track.

The Bureau recognizes that it needs to change its method of doing business and has already taken some important first steps in this regard. For example, the Bureau is rebuilding its research directorate to lead early planning efforts and has developed a strategic plan for 2020 and other related documents that, among other things, outline the Bureau's mission and vision for 2020.

Thus, in looking ahead toward the next Census, it will be vitally important to both identify lessons learned from the 2010 enumeration to improve existing census-taking activities, as well as to re-examine and perhaps fundamentally transform the way the Bureau plans, tests, implements, monitors, and evaluates future enumerations in order to address long-standing challenges.

New High-Risk Area: Management of Federal Oil and Gas Resources

We have designated the Department of the Interior's management of federal oil and gas on leased federal lands and waters as high risk because Interior (1) does not have reasonable assurance that it is collecting its share of revenue from oil and gas produced on federal lands; (2) continues to experience problems in hiring, training, and retaining sufficient staff to provide oversight and management of oil and gas operations on federal lands and waters; and (3) is currently engaged in a broad reorganization of both its offshore oil and gas management and revenue collection

functions. With regard to this organizational effort, there are many open questions about whether Interior has the capacity to undertake such a reorganization while continuing to provide reasonable assurance that billions of dollars of revenue owed the public are being properly assessed and collected and that oil and gas exploration and production on federal lands and waters is well-managed.

Federal oil and gas resources provide an important source of energy for the United States, create jobs in the oil and gas industry, and generate billions of dollars annually in revenues that are shared between federal, state, and tribal governments. Revenue generated from federal oil and gas production is one of the largest nontax sources of federal government funds, accounting for about \$9 billion in fiscal year 2009. Also, the explosion onboard the Deepwater Horizon and oil spill in the Gulf of Mexico in April 2010 emphasized the importance of Interior's management of permitting and inspection processes to ensure operational and environmental safety. The National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling reported in January 2011 that this disaster was the product of several individual missteps and oversights by BP, Halliburton, and Transocean, which government regulators lacked the authority, the necessary resources, and the technical expertise to prevent.

Historically, Interior's Bureau of Land Management (BLM) managed onshore federal oil and gas activities, while the Minerals Management Service (MMS) managed offshore activities and collected royalties for all leases. Interior recently began restructuring its oil and gas program, transferring offshore oversight responsibilities to the newly created Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) and revenue collection to a new Office of Natural Resource Revenue.

Interior faces ongoing challenges in three broad areas, including the following:

Revenue collection. In 2008, GAO reported that Interior collected lower levels of revenues for oil and gas production than all but 11 of 104 oil and gas resource owners whose revenue collection systems were evaluated in a comprehensive industry study—these resource owners included many other countries as well as some states. GAO recommended that Interior undertake a comprehensive reassessment of its revenue collection policies and processes. Interior has commissioned such a study in response to GAO's September 2008 report, and the study is expected to be completed in 2011. The results of the study may reveal the potential for greater

revenues to the federal government. GAO also reported in 2010 that neither BLM nor MMS had consistently met their statutory requirements or agency goals for oil and gas production verification inspections. Without such verification, Interior cannot provide reasonable assurance that the public is collecting its legal share of revenue from oil and gas development on federal lands and waters. In addition, GAO reported in 2009 on numerous problems with Interior's efforts to collect data on oil and gas produced on federal lands, including missing data, errors in company-reported data on oil and gas production, sales data that did not reflect prevailing market prices for oil and gas, and a lack of controls over changes to the data that companies reported. As a result of Interior's lack of consistent and reliable data on the production and sale of oil and gas from federal lands, Interior could not provide reasonable assurance that it was assessing and collecting the appropriate amount of royalties on this production. GAO made a number of recommendations to Interior to improve controls on the accuracy and reliability of royalty data. Interior generally agreed with GAO's recommendations and is working to implement many of them, but these efforts are not complete and it is uncertain if they will be fully successful.

Human capital. GAO has reported that BLM and MMS have encountered persistent problems in hiring, training, and retaining sufficient staff to meet its oversight and management of oil and gas operations on federal lands and waters. For example, in 2010, GAO found that BLM and MMS experienced high turnover rates in key oil and gas inspection and engineering positions. As a result, Interior faces challenges meeting its responsibilities to oversee oil and gas development on federal leases, potentially placing both the environment and royalties at risk. GAO made recommendations to address these issues. While Interior's reorganization of MMS includes plans to hire additional staff with expertise in oil and gas inspections and engineering, these plans have not been fully implemented, and it remains unclear whether Interior will be fully successful in hiring, training, and retaining these staff. Further, human capital issues also exist in the BLM and the management of onshore oil and gas, and these issues have not been addressed in Interior's reorganization plans.

Reorganization. In May 2010, the Secretary of the Interior announced plans to reorganize MMS—its bureau responsible for overseeing offshore oil and gas activities and collecting royalties—into three separate bureaus. The Secretary of the Interior stated that dividing MMS's responsibilities among three separate bureaus will help ensure that each of the three newly established bureaus have a distinct and independent mission. While this reorganization may eventually lead to more effective operations, GAO

has reported that organizational transformations are not simple endeavors and require the concentrated efforts of both leaders and employees to realize intended synergies and accomplish new organizational goals. One key practice that GAO has identified for effective organizational transformation is to balance continued delivery of services with transformational activities. However, we are concerned about Interior's capacity to find the proper balance given its history of management problems and challenges in the human capital area. Specifically, GAO is concerned about Interior's ability to undertake this reorganization while providing reasonable assurance that billions of dollars of revenues owed the public are being properly assessed and collected and that oversight of oil and gas exploration and production on federal lands and waters maintains an appropriate balance between efficiency and timeliness on one hand, and protection of the environment and operational safety on the other. In addition, Interior's reorganization efforts do not address BLM's ongoing challenges with its permitting and inspections programs and human capital challenges.

Interior must successfully address the challenges GAO has identified, implement open recommendations, and meet its routine responsibilities to manage federal oil and gas resources in the public interest, while managing a major reorganization that has the potential to distract agency management from other important tasks and put additional strain on Interior staff. While Interior recently began implementing a number of GAO recommendations, including those intended to improve the reliability of data necessary for determining royalties, the agency has yet to fully implement a number of recommendations, including those intended to (1) provide reasonable assurance that oil and gas produced from federal leases is accurately measured and that the public is getting an appropriate share of oil and gas revenues, and (2) address its long-standing human capital issues.

Remaining High-Risk Areas

While there has been some progress on nearly all of the issues that remain on the High-Risk List, the nation cannot afford to allow problems to persist. Addressing high-risk problems can save billions of dollars each year. Several areas on GAO's list illustrate both the challenges of addressing difficult and tenacious high-risk problems and the opportunities for savings that can accrue if progress is made to address high-risk problems.

Medicare and Medicaid. GAO designated Medicare as a high-risk program because its complexity and susceptibility to improper payments,

added to its size, have led to serious management challenges. In 2010, Medicare covered 47 million elderly and disabled beneficiaries and had estimated outlays of \$509 billion. GAO also designated Medicaid as a high-risk program in part due to concerns about the adequacy of fiscal oversight, which is necessary to prevent inappropriate program spending. Medicaid, the federal-state program that covered acute health care, long-term care and other services for over 65 million low-income people in fiscal year 2009, consists of more than 50 distinct state-based programs that cost the federal government and states an estimated \$381 billion that year. The program accounts for more than 20 percent of states' expenditures and exerts continuing pressure on state budgets.

New directives, implementing guidance, and legislation will impact the Centers for Medicare & Medicaid Services' (CMS) efforts to reduce improper payments in the next few years. The administration issued Executive Order 13520 on Reducing Improper Payments in 2009 and related implementing guidance in 2010. In addition, the Improper Payments Elimination, and Recovery Act of 2010 (IPERA) amended the Improper Payment Information Act of 2002 (IPIA) and established additional requirements related to accountability, recovery auditing, compliance and noncompliance determinations, and reporting. In its fiscal year 2010 Agency Financial Report, the Department of Health and Human Services estimated that federal Medicare and Medicaid improper payments in fiscal year 2010 were more than \$70 billion.

CMS has taken actions to address some of the improper payment requirements. For example, recovery audit contractors identify improper payments and thus, help agencies to recover them. As required by law, CMS implemented a national Medicare Recovery Audit Contractors (RAC) program in 2009 and has provided guidance to the states for implementing Medicaid RACs. Other recent CMS program integrity efforts include issuing regulations tightening provider enrollment requirements. In addition, in compliance with the Executive Order, CMS has established reduction targets for the Medicare Fee-for-Service, Medicare Advantage, and Medicaid programs' improper payment rates.

We view these new laws, directives, and agency efforts as positive steps toward improving transparency over and reducing improper payments in the Medicare and Medicaid programs. However, it is too soon to determine whether the activities called for in recent laws and guidance will achieve their goals of reducing improper payments while continuing to ensure that federal programs serve and provide access to intended beneficiaries. CMS is still developing its improper payment rate methodology for its

prescription drug program and has not been able to demonstrate sustained progress in lowering its improper payment rates for the other parts of Medicare. CMS needs a plan with clear measures and benchmarks for reducing Medicare's risk for improper payments and other issues that leave the programs at risk. For Medicaid, we continue to stress that more federal oversight of its fiscal integrity is needed.

Identifying the nature, extent and underlying causes of improper payments is an essential prerequisite to taking appropriate action to reduce them, as is implementing GAO's recommendation to develop an adequate corrective action process to address vulnerabilities. Further, CMS could take other actions to help better address the issue of improper payments in the Medicare and Medicaid programs. For Medicare, these include establishing policies to improve contract oversight and better target review of claims for services with high rates of improper billing. For Medicaid, these include (1) ensuring that states develop adequate corrective action processes to address vulnerabilities to improper Medicaid payments to providers, (2) issuing guidance to states to better prevent payment of improper claims for controlled substances, and (3) improving oversight of managed care payment rate setting and Medicaid supplemental payments. The level of importance CMS, HHS, and the administration place on the efforts to implement the requirements established by recent laws and guidance and implementation of our recommendations will be key factors in reducing improper payments in the Medicare and Medicaid programs and ensuring that federal funds are used efficiently and for their intended purposes.

Managing Federal Real Property and DOD Support Infrastructure Management. Since our 2009 update, sufficient progress has been made to narrow the scope of both the Managing Federal Real Property and DOD Support Infrastructure Management high-risk areas. However, in both areas, excess federal property remains a concern.

The federal real property portfolio is vast and diverse. It totals over 900,000 buildings and structures with a combined area of over 3 billion square feet. Progress has been made on many fronts, including significant progress with real property data reliability and managing the condition of facilities. Since 2004, both OMB and GSA have demonstrated commitment in promoting reform efforts through establishing and improving a centralized real property data base. Agencies have developed asset management plans, standardized data, and adopted performance measures. Further, a June 2010 presidential memorandum directed

agencies to identify and eliminate excess properties to produce a \$3 billion cost savings by 2012.

However, federal agencies continue to face long-standing problems, such as overreliance on leasing, excess and underutilized property, and protecting federal facilities. For example, OMB has not developed a corrective action plan to address the fact that agencies increasingly rely on leasing. GSA, the government's principal landlord, leases more property than it owns. In addition, although efforts to dispose of unneeded assets have been made, a large number of excess and underutilized assets remain. Agencies reported 45,190 buildings as underutilized in fiscal year 2009—an increase of 1,830 such buildings from the previous fiscal year. Maintaining this unneeded space is costly. In fiscal year 2009, agencies reported underutilized buildings accounted for \$1.66 billion in annual operating costs. As GAO has reported over the years, attempted corrective action measures have not addressed the root causes that exacerbate these problems, such as various legal and budget-related limitations and competing stakeholder interests.

While the Department of Defense has made progress in better aligning its missions and facilities and disposing of unneeded facilities through the base realignment and closure process, the Department still has a significant amount of excess infrastructure. Senior Defense officials have stated that further reductions may be needed to ensure that its infrastructure is appropriately sized to carry out its missions in a cost-effective manner.

Federal agencies also have made limited progress and continue to face challenges in securing real property. GAO has reported that, since transferring to the Department of Homeland Security, the Federal Protective Service (FPS) experienced management and funding challenges that have hampered its ability to protect about 9,000 federal facilities. In particular, FPS has limited ability to allocate resources using risk management and lacks appropriate oversight and enforcement to manage its growing contract guard program. In 2010, GAO found that limited information about risks and the inability to control common areas pose challenges to protecting leased space.

As a result, the management of federal real property remains high risk, with the exceptions of governmentwide real property data reliability and management of condition of facilities, which GAO found to be sufficiently improved to be no longer considered high risk.

Notwithstanding the progress in property data reliability which allows OMB to measure progress governmentwide, other actions need to occur to address root problems, including a strategy to address the continued reliance on leasing in cases where ownership would be less costly. This strategy should identify the conditions, if any, under which leasing is an acceptable alternative. In addition, OMB and the Federal Real Property Council should develop potential strategies to reduce the effect of competing stakeholder interests as a barrier to disposing of excess property.

DOD Weapon Systems Acquisition. Over the next 5 years, the Department of Defense (DOD) expects to invest almost \$343 billion (in fiscal year 2011 dollars) on the development and procurement of major defense acquisition programs. Defense acquisition programs usually take longer, cost more, and deliver fewer quantities and capabilities than DOD originally planned. Congress and DOD have taken steps to improve the acquisition of major weapon systems, yet some program outcomes continue to fall short of what was agreed to when the programs started. With the prospect of slowly growing or flat defense budgets for the foreseeable future, DOD must get better value for its weapon system spending and find ways to deliver needed capability to the warfighter for less than it has spent in the past.

While the performance of individual programs can vary greatly, GAO's work has revealed significant aggregate cost and schedule growth in DOD's portfolio of major defense acquisition programs. In 2009, GAO reported that the total cost growth on DOD's fiscal year 2008 portfolio of 96 major defense acquisition programs was over \$303 billion (fiscal year 2011 dollars) and the average delay in delivering initial capability was 22 months.

DOD has demonstrated a strong commitment, at the highest levels, to address the management of its weapon system acquisitions. At the strategic level, DOD has started to reprioritize and rebalance its weapon system investments. In 2009 and 2010, the Secretary of Defense proposed canceling or significantly curtailing weapon programs, such as the Army's Future Combat System Manned Ground Vehicles and the Navy's DDG-1000 Destroyer—which he characterized as too costly or no longer relevant for current operations. DOD plans to replace several of the canceled programs and has an opportunity to pursue knowledge-based acquisition strategies on the new programs. In addition, the Under Secretary of Defense for Acquisition, Technology, and Logistics has embraced an Army initiative to eliminate redundant programs within capability portfolios and make

affordability a key requirement for weapon programs. These actions are consistent with past GAO findings and recommendations. However, if these initiatives are going to have a lasting, positive effect, they need to be translated into better day-to-day management and decision making. For example, GAO has recommended that DOD empower its capability portfolio managers at the departmentwide level to prioritize needs, make decisions about solutions, and allocate resources; and develop criteria to assess the affordability and capabilities provided by new programs in the context of overall defense spending.

At the program level, GAO's recent observations present a mixed picture of DOD's adherence to a knowledge-based acquisition approach, which is key for improving acquisition outcomes. For 42 programs GAO assessed in depth in 2010, there was continued improvement in the technology, design, and manufacturing knowledge the programs had at key points in the acquisition process. However, most programs were still proceeding with less knowledge than best practices suggest, putting them at higher risk for cost growth and schedule delays. DOD has begun to implement a revised acquisition policy and congressional reforms that address these and other common acquisition risks. If DOD consistently implements these reforms, the number of programs adhering to a knowledge-based acquisition approach should increase and the outcomes for DOD programs should improve. To help promote accountability for compliance with acquisition policies and address the factors that keep weapon acquisitions on the High-Risk list, DOD has worked with GAO and the Office of Management and Budget to develop a comprehensive set of process and outcome metrics to provide consistent criteria for measuring progress.

Due to actions by Congress, such as the Weapon Systems Acquisition Reform Act of 2009, and DOD, the department's policy for defense acquisition programs now reflects the basic elements of a knowledge-based acquisition approach and its weapon system investments are being rebalanced. However, to improve outcomes over the long-term, DOD should (1) develop an analytical approach to better prioritize capability needs; (2) empower portfolio managers to prioritize needs, make decisions about solutions, and allocate resources; and (3) enable well-planned programs by providing them the resources they need, while holding itself and its programs accountable for policy implementation via milestone and funding decisions and reporting on performance metrics.

DOD Supply Chain Management. We have identified Department of Defense (DOD) supply chain management as a high-risk area due to weaknesses in the management of supply inventories and responsiveness

to warfighter requirements. Supply chain management is the operation of a continuous and comprehensive logistics process, from initial customer order for material or services to the ultimate satisfaction of the customer's requirements. DOD estimated that its logistics operations, including supply chain management, cost about \$194 billion in fiscal year 2009. Our work has identified three major areas of weakness in DOD supply chain management—requirements forecasting, asset visibility, and materiel distribution.

Since our last high-risk update, DOD has taken a major step toward improving management of supply inventories. In response to a legislative mandate,⁴ the department submitted its Comprehensive Inventory Management Improvement Plan to Congress in November 2010. DOD reported that the total value of its secondary inventory was more than \$91 billion in 2009, and that \$10.3 billion (11 percent) of its secondary inventory has been designated as excess and categorized for potential reuse or disposal.⁵ In its plan, DOD establishes goals for reducing this excess inventory, which could limit future costs associated with its supply inventories. Issuing the plan and establishing working groups and associated reporting structures will help resolve long-standing problems in requirements forecasting and other areas of inventory management. Nevertheless, DOD faces implementation challenges, including aggressive timelines and benchmarking; non-standard definitions, processes, procedures, and metrics across DOD components; and the need for coordination and collaboration among multiple stakeholders.

DOD will also need to place continued management emphasis on improving asset visibility and materiel distribution, the two other focus areas for improvement in supply chain management. Weaknesses in these focus areas can affect DOD's ability to support the warfighter. For example, we reported on supply support problems and shortages of critical items during the early operations in Iraq and on the numerous logistics challenges that DOD faces in supporting forces in Afghanistan. In July 2010, DOD issued its Logistics Strategic Plan, providing high-level

⁴Section 328 of the National Defense Authorization Act (NDAA) for Fiscal Year 2010. Pub. L. No. 111-84 § 328 (2009).

⁵DOD defines secondary inventory items to include repairable components, subsystems, and assemblies other than major end items (e.g., ships, aircraft, and helicopters), consumable repair parts, bulk items and materiel, subsistence, and expendable end items (e.g., clothing and other personal gear).

direction for supply chain management and other logistics areas. DOD, however, has not developed detailed corrective action plans that address the asset visibility and materiel distribution problems or their root causes and effective solutions.

DOD also will need to fully implement a program for monitoring and independently validating the effectiveness and sustainability of corrective actions and will need to demonstrate progress in all three of the key focus areas. Among other things, DOD could build on the performance management framework in the Logistics Strategic Plan and the inventory improvement plan to develop management processes to comprehensively guide and integrate its various improvement efforts, implement outcome-based performance measures, gather reliable performance data, and demonstrate progress towards its goals for effective and efficient supply chain management. DOD has acknowledged that it needs to track the speed, reliability, and overall efficiency of the supply chain.

Enforcement of Tax Laws. Internal Revenue Service (IRS) enforcement of the tax laws is vital to ensuring that all taxes owed are paid, which in turn can promote voluntary compliance by giving taxpayers confidence that others are paying their fair share. Typically, about 84 percent of taxes owed are paid voluntarily and timely. IRS last estimated the resulting tax gap to be \$345 billion for 2001. After late payments and IRS enforcement, the net tax gap was \$290 billion. Many experts believe that the tax gap was underestimated for 2001 and has grown since then.

Congress and IRS have taken innovative actions aimed at improving tax compliance, some based on GAO's work. In 2010, IRS began implementing a new regulatory regime for paid tax return preparers intended to help improve taxpayer compliance. Congress recently passed laws requiring financial institutions to report information on taxpayers' foreign bank accounts, taxpayers' securities' basis, and businesses' credit card receipts.

In reports and testimonies, we have said that because the tax gap arises from so many different types of taxes and taxpayers, multiple approaches will be needed to reduce it. Suggestions from our recent work include

- Continuing to perform compliance research and use it to identify and target areas of noncompliance;
- Developing a strategy for ensuring compliance by networks of related businesses;

- Expanding IRS's legal authority to correct simple tax return errors before refunds are issued; and
- Leveraging the new paid preparer requirements, new sources of information about taxpayers, and new technology to improve service and compliance.

If approaches like these could reduce the tax gap by 1 percent, the resulting revenue increase would be about \$3 billion annually.

The complexity of the tax code also contributes to noncompliance and therefore the tax gap. Complexity can cause taxpayer confusion and provide opportunities to hide willful noncompliance. Consequently, improved tax compliance and a smaller tax gap could be one of the benefits of tax reform and simplification.

Sustaining Progress on High-Risk Programs

Overall, the government continues to take high-risk problems seriously and is making long-needed progress toward correcting them. Congress has acted to address several individual high-risk areas through hearings and legislation. Continued perseverance in addressing high-risk areas will ultimately yield significant benefits. Lasting solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the American public, and strengthen public confidence and trust in the performance and accountability of our national government.

The GAO's high-risk update and High Risk and Other Major Government Challenges Web site, www.gao.gov/highrisk/, can help inform the oversight agenda for the 112th Congress and guide efforts of the administration and agencies to improve government performance and reduce waste and risks.

Thank you, Mr. Chairman, Ranking Member Cummings, and Members of the Committee. This concludes my testimony. I would be pleased to answer any questions you may have.

For further information on this testimony, please contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov. Contact points for the individual high-risk areas are listed in the report and on our high-risk Web site. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement.

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